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DE RUEHLB #0158/01 0411630
ZNR UUUUU ZZH
R 101630Z FEB 09 ZDK
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC 4177
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RHEHAAA/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 02 BEIRUT 000158

SENSITIVE

SIPDIS

STATE FOR NEA/ELA
STATE PASS USTR FRANCESCKI
STATE PASS USAID BEVER/LAUDATO/SCOTT
TREASURY FOR PARODI/BLEIWEISS/CORREA
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

E.O. 12958: N/A

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SUBJECT: LEBANON: BUDGET DELAYED BY DISPUTE OVER COUNCIL FOR THE
SOUTH (ECONOMIC WEEK IN REVIEW, FEBRUARY 2 - 8, 2009)

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COUNCIL FOR THE SOUTH STILL
HOLDING UP THE BUDGET

¶1. (SBU) On January 29, the cabinet postponed discussions of the 2009 budget draft for ten days until the return of President Sleiman from an official visit to Bahrain and the UAE. This should allow time for politicians to resolve the issue of the budget allotment to the Council for the South, which has been delaying the passage of the 2009 budget. While Parliament Speaker Berri's key advisor Ali Hamdan told us that Berri insists on a \$40 million budget for the Council for the South - widely seen as a fund that Berri controls and hence a highly sensitive issue during an election year -- PM Siniora insists on limiting the Council's budget to \$20 million to contain GOL spending in the absence of tax increases.

¶2. (SBU) Hamdan told us Siniora aims to weaken Berri politically, cutting off his patronage while maintaining other institutions that provide patronage to March 14 politicians. He said Berri's Bloc would instead support the creation of a Ministry for Planning to replace the Council for the South, the Fund for the Displaced (seen as providing patronage to March 14 Druze MP Walid Jumblatt), the Higher Relief Council and the Council for Development and Reconstruction (CDR) (both of which allegedly benefit primarily the Sunni constituency). Dr. Jawad Adra, head of reputed research and polling company Information International, told us separately that the budget discussion is "trivial," the main issue being the preservation of the political turf of each group.

CDR OFFICIAL SKEPTICAL THAT GOL

WILL CREATE MINISTRY OF PLANNING

13. (SBU) CDR Secretary General Ghazi Haddad believes it unlikely the cabinet will approve the creation of a Ministry of Planning and close CDR. He said this subject is being brought out now because PM Siniora disagrees with Parliament Speaker Berri regarding the Council for the South budget. Haddad said the political class is not interested in planning, and pointed out that it did not back a ten-year Master Plan that the CDR had prepared in coordination with all the ministries about three years ago.

FINANCE MINISTRY PREPARES TO ROLLOVER DEBT

14. (SBU) In a February 2 meeting with the Ambassador and EconOff, Finance Minister Chatah said his ministry would in the coming days be selecting banks to participate in an approximately \$2.6 billion debt exchange (\$2.3 billion in principal, plus interest), during which maturing debt will be rolled over into longer-term bonds with three- to seven-year maturities. Chatah noted that despite lack of progress in passing the 2009 budget, current law would allow him to issue up to \$500 million in additional debt even before the budget is passed.

LEBANON RANKED LOW ON GOVERNMENT BUDGET TRANSPARENCY

15. (U) On the margins of high-level discussions of non-transparent government entities (see para 1-4), on February 4, the Lebanese Transparency Association (LTA) indicated that Lebanon scored 32 out of 85 countries worldwide in the 2008 Open Budget Index (OBI) published by the International Budget Partnership (IBP) in February

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2009, and ranked among countries that provide minimal information to citizens. The survey pointed out delays in endorsing the budget, lack of transparency regarding government spending, programs and policies, and delays in publishing financial statements. The OBI is an independent, comparative measure of budget transparency around the world prepared by IBP in collaboration with civil society.

LTA WILL FOLLOW UP ON TRANSPARENCY PARTNERSHIP MOU WITH FINANCE MINISTRY

16. (SBU) On February 4, LTA Executive Director Badri Meouchi told us LTA expects to meet with Minister of Finance Mohammad Chatah to follow-up on the implementation of the transparency partnership Memorandum of Understanding (MOU) that was signed in October 2007 with former Finance Minister Jihad Azour. Discussions will cover the implementation of the Code of Conduct by all Ministry of Finance (MOF) staff, exchange views on the communications strategy, and other priorities, Meouchi said. This is a pilot project that is expected to be replicated in all the ministries, he said.

CENTRAL BANK GOVERNOR WILL OPEN NYSE ON MARCH 2

17. (SBU) President of the Banking Control Commission (BCC) Walid Alameddine told us that the Bank of New York is holding a one-day road show in New York on March 2 and has invited Central Bank Governor Riad Salameh to open the NYSE. During the last two years, Salameh has received several awards for best Central Bank Governor in the MENA region. Lebanon is also among the few countries that have not yet been seriously affected by the international financial crisis because of sound CBL policies. Alameddine told us that he plans to be in Washington, D.C. on March 3 and would be available for meetings with USG officials.

MERRILL LYNCH MAINTAINS ITS RECOMMENDATION ON LEBANESE EUROBDONDS

18. (U) Merrill Lynch (ML) maintained its market weight recommendation on Lebanon's external debt in its model portfolio of emerging market debt, and slightly decreased Lebanon's market weight by 0.8 percent to 6.9 percent. ML noted that Lebanon has been one of the best performers, along with Iraq, in its portfolio since its upgrade to 'market weight' in May 2008. Lebanon's allocation is ranked seven out of 18 countries in ML's portfolio, down from six in November 2008.

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